

DIVISION OF ADMINISTRATION
OFFICE OF COMMUNITY DEVELOPMENT
INVOICE REVIEW



AGREED-UPON PROCEDURES REPORT

ISSUED JANUARY 16, 2008

**LEGISLATIVE AUDITOR
1600 NORTH THIRD STREET
POST OFFICE BOX 94397
BATON ROUGE, LOUISIANA 70804-9397**

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STEVE J. THERIOT, CPA
LEGISLATIVE AUDITOR

OFFICE OF
LEGISLATIVE AUDITOR
STATE OF LOUISIANA
BATON ROUGE, LOUISIANA 70804-9397

1600 NORTH THIRD STREET
POST OFFICE BOX 94397
TELEPHONE: (225) 339-3800
FACSIMILE: (225) 339-3870

December 12, 2007

Independent Accountant's Report on the
Application of Agreed-Upon Procedures

MS. SUZIE ELKINS, EXECUTIVE DIRECTOR
OFFICE OF COMMUNITY DEVELOPMENT
DIVISION OF ADMINISTRATION
Baton Rouge, Louisiana

We have performed the procedures enumerated below for ICF International (ICF) billings for the period July 1, 2007, through September 30, 2007, which were agreed to by you, as the executive director of the Office of Community Development (OCD), primarily to assist you in evaluating the validity of ICF's billings to the state. OCD management is responsible for approving ICF invoices. This agreed-upon procedures engagement was conducted in accordance with the attestation standards established by the American Institute of Certified Public Accountants and the applicable attestation standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The sufficiency of these procedures is solely the responsibility of management of OCD. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures that we performed and our findings are as follows:

1. Procedure

Compared all ICF invoices to the contract guidelines to determine if they were submitted in accordance with the guidelines; had all the required signatures; were within the required time period; were supported by subcontractor invoices, time records, and receipts; and verified that the supporting documentation agrees with the invoice.

Finding

During the period, ICF billed OCD \$49,235,837 for unit costs; \$43,246,460 for labor; \$19,645,517 for other direct costs (ODCs); \$2,913,947 for travel; and \$1,230,385 for management fees for a total of \$116,272,146. Management fees and travel were invoiced in accordance with the contract.

According to the contract, invoices to include supporting documentation should be submitted twice a month on or about the first and the fifteenth days of the

month. OCD and ICF have mutually agreed to weekly invoicing. On 10 occasions, ICF did not submit the invoice and/or the supporting documentation within the agreed-upon time period. In one instance, ICF submitted invoices on consecutive days. ICF has taken measures to improve and has begun to submit invoices and supporting documentation in a more timely manner.

Labor, ODCs, and unit prices are discussed later in this report.

2. Procedure

Compared labor rates billed for ICF employees to labor rates specified in the contract and compared the budget to actual expenditures.

Finding

We compared ICF employees' labor rates to the contract rates and found no exceptions. However, ICF labor invoices totaling \$559,783 were initially submitted without adequate supporting documentation. During the application of these procedures, supporting documentation was submitted.

Since September 2007 budget information was not available, we used the budget information for August 2007. Through August 31, 2007, ICF billed \$425,556,543, which includes \$50,000,000 in accruals for unbilled July/August labor and subcontractor activity. Billings through August 31, 2007, are \$88,200,000 (26%) over the budgeted amount. Because of program changes, comparisons between actual and budgeted amounts may be misleading. New budgets are being developed but are not yet complete.

3. Procedure

Traced subcontractor employee hours billed by ICF to approved subcontractor invoices.

Finding

During the transition period from amendment 3 to amendment 5 some subcontractor labor was not billed in accordance with the correct amendment. Amendment 4 to the ICF contract did not affect labor rates. There were instances when subcontractor labor was billed at amendment 5 rates when amendment 3 rates were still effective and when subcontractor labor was billed at amendment 3 rates when amendment 5 rates were effective. Amendment 5 became effective during an invoice period making it difficult to determine the applicable amendment and further complicating the transition. In addition, labor was sometimes billed without a task order in place.

Subcontractor labor totaling \$3,167,729 was not billed in accordance with amendment 3 or amendment 5. Of that amount, \$2,878,960 has been rebilled in accordance with the proper amendment. The remaining \$288,769 is comprised of \$219,465 of unresolved billings, \$44,565 in unsupported charges, and \$24,739 that exceeds the agreed-upon markup.

ICF billed subcontractor labor totaling \$1,109,687 in accordance with amendment 6; however, amendment 6 had not yet been approved. OCD did not pay these charges and ICF has not yet rebilled for them.

In addition, ICF billed subcontractor labor totaling \$57,566 that was not included in an approved task order. OCD did not pay these charges and ICF has not yet rebilled for them.

4. Procedure

Verified that subcontractor employee hours are billed to OCD in accordance with the proper ICF labor classification.

Finding

Amendment 5 eliminated the need for ICF to map labor categories to its subcontractors. However, some of the rates in amendment 5 exceeded the agreed-upon markup and some of the labor and unit categories were omitted. Amendment 6 corrected the mark-up issues and includes the omitted categories.

5. Procedure

Determined if subcontractor invoices include the approval signature of an ICF program manager.

Finding

ICF initially submitted subcontractor invoices totaling \$894,207.55 without the required program manager approval form. Subsequently, the proper supporting documentation was submitted and the invoices were paid.

6. Procedure

Compared unit costs billed to the rates established in the contract.

Finding

In amendment 5, OCD and ICF reached an agreement that unit rates would be marked up a specified percentage. Though ICF billed in accordance with amendment 5 rates, an excess markup of \$157,044 resulted from rounding.

In addition, ICF invoiced \$1,528,149 for unit costs that were not properly supported. ICF subsequently provided supporting documentation and was paid.

INVOICE REVIEW

7. Procedure

Determined if unit costs billed are supported by subcontractor invoices.

Finding

No exceptions noted.

8. Procedure

Determined if ODCs were submitted with supporting invoices and/or receipts.

Finding

We questioned ODCs totaling \$4,701,611 of the \$19,645,517 that ICF invoiced. Of the questioned amount, \$2,975,465 was not properly supported. During the application of these procedures, supporting documentation was submitted, but \$2,969,473 is still under review. The other questioned ODCs charged for travel, personnel recruitment, overhead expenses, amendment 6 items, and subcontractor overtime hours. OCD paid \$806,628 of the questioned ODCs leaving an unpaid balance of \$3,896,667.

OCD will pay ICF, on a pro rata basis over the life of the contract, a fixed fee totaling \$13,530,000 to manage ODCs. As of September 30, 2007, management fees totaled \$6,559,616 and ODCs totaled \$42,090,250.

The contract between OCD and ICF does not clearly delineate what is an ODC as opposed to an overhead cost that has already been included in ICF's indirect charges. We recommend an amendment be added to clearly define ODCs and overhead.

We were not engaged to and did not conduct an examination, the objective of which would be to express an opinion on OCD's compliance with federal and state regulations, OCD's internal control over compliance with federal and state regulations, or OCD's financial statements. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters may have come to our attention that would have been reported to you.

This report is intended primarily for the information and use of OCD. However, by provisions of state law, this report is a public document and has been distributed to the appropriate public officials.

Respectfully submitted,



Steve J. Theriot, CPA
Legislative Auditor

DP:JM:dl

IR08

Management's Response



State of Louisiana
DIVISION OF ADMINISTRATION

**OFFICE OF COMMUNITY DEVELOPMENT
DISASTER RECOVERY UNIT**

KATHLEEN BABINEAUX BLANCO
GOVERNOR

JERRY LUKE LEBLANC
COMMISSIONER OF ADMINISTRATION

December 27, 2007

Mr. Steve J. Theriot, CPA
1600 North Third Street
PO Box 94397
Baton Rouge, LA 70804-9397

Re: OCD/DRU Response to the Invoice Review Procedures for the
3 months ending September 30, 2007

Dear Mr. Theriot:

The Office of Community Development [OCD], Division of Administration appreciates the opportunity to respond to the procedures, findings and recommendations by your Office on the review identified above. Our analysis of the report found that it accurately summarizes the items that we discuss in detail with ICF and your office in our weekly meetings to review ICF invoices and the Findings of Review prepared by the Auditor's Office. There are, however, two areas that we feel need either additional clarification or are not functionally possible.

The first area is the Finding under Section 6 of the report. When Amendment # 5 was negotiated, the unit costs were rounded up to whole dollar amounts. These costs were agreed to by both parties. To state that there is excess markup is incorrect. There is nothing in the contract with ICF that states that unit prices would be marked up a specific percentage. All unit costs were to be billed according to the rates agreed upon in the contract and OCD has only paid these rates.

The second item is the Finding under Section 8 of the report where the Auditor's Office recommends "an amendment be added to clearly define ODCs and overhead." There are often times in accounting where it is completely reliant upon professional judgment as to the proper classification and recordation of a revenue or an expense. It is not practical nor within proper accounting standards to think that we can definitively define in advance every cost, its classification, use, presentation and applicability. We feel that our weekly discussions are the best forum to openly address these items so all parties understand the treatment of these items.


Mr. Steve J. Theriot, CPA

December 27, 2007

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We would like to thank your office for their hard work on this assignment and their professionalism and diligence in working through many difficult issues. The value added by their participation is seen by progress made by ICF in presenting invoices that are accurate and well documented.

Sincerely,

for 
Susan Elkins, Executive Director
OCD/Disaster Recovery Unit

SE\SG

C: Tom Brennan
Steven Green
Mike Taylor



January 17, 2008

Mr. Steve Theriot, CPA
Legislative Auditor, State of Louisiana
1600 North Third Street
P.O. Box 94397
Baton Rouge, LA 70804-9397

Subject: ICF Response to Invoice Review

Dear Mr. Theriot:

As you know, we appreciate the excellent working relationship that has been established between ICF and the Office of Legislative Auditor in the context of our implementing *The Road Home* Program on behalf of the State of Louisiana. It is a privilege for our firm to be managing and implementing this unprecedented program for the State and we do not take any of our responsibilities lightly, especially given the many hardships experienced by the homeowners that we are serving.

Attached are our comments on the most recent report to be issued by your office that reviewed our invoicing to the State on *The Road Home* in the period from July 1 to September 30, 2007. As we were not afforded an opportunity to comment on the draft report last month by the Office of Community Development (OCD), we are instead providing our comments after our receipt yesterday of an advance copy of the final report. (We did not receive the draft report from OCD.)

Given the extent of our comments and the importance of this review to the Program and our firm, we would like to respectfully request that our comments be incorporated in the final report to be issued, so that it is as complete as possible and can present our perspective. If this is not possible at this late juncture, we would like to request that the report indicate that we were not afforded an opportunity to provide comments.

Thank you for your assistance and please let me know if you have any questions or if we can provide further information.

Sincerely,

A handwritten signature in cursive script that reads "John D. Thornton".

John Thornton
Chief Administrative Officer

Attachment

January 16, 2008

The Road Home Program
Louisiana Legislative Auditor – Invoice Review
ICF's Response to Findings

1. The auditor's report indicates that in some cases ICF did not bill "within the agreed-upon time period" and in a timely manner.

In a contract of this magnitude, with a dozen offices, 40 subcontractors, 2,400 personnel, and many thousands of transactions to process each week, it is not uncommon from time to time for there to be a short delay in submitting certain invoices to the State. Perhaps this is particularly the case given the highly detailed nature of our invoices and supporting documentation, which total approximately 1,000 pages each week, to prepare and submit. We provide comprehensive information on the labor hours and dollars charged by individual employee and by labor category, both for ICF and subcontractors, and for the weekly period and contract to date, as well as all subcontractor invoices and receipts and various back-up materials and justifications for Other Direct Costs (ODCs) incurred and thousands of unit price charges.

Still, we always strive to prepare and submit our invoices pursuant to the schedule agreed upon with the Office of Community Development (OCD) to assist in their planning and processing. In cases where we may encounter a short delay, we attempt to notify OCD and, to our knowledge, have not been informed that our submitting an invoice on a subsequent date would be problematic from the State's perspective, perhaps because the contract requirement is for invoices to be submitted twice a month, not weekly. Moreover, the sooner we invoice, the sooner we are paid, and most clients are therefore in no hurry to get our invoices.

2. The report states that ICF invoiced for \$559,783 in ICF employee labor "without adequate supporting documentation," which was subsequently provided to the auditors.

The type and amount of supporting documentation requested by the auditors to review our invoices has changed over time. Further, our contract does not have any provisions related to the type or amount of supporting documentation that is expected to accompany our invoices, either for ICF or subcontractor costs. Whenever we have received a request for supporting documentation, we have provided it as quickly and completely as possible, and will continue to do so going forward. In fact, we provide more supporting documentation on this contract than any of the tens of thousands of contracts that we have performed in our company's nearly 40-year history. We understand the review role played by auditors and do our best to provide all of the documentation needed for them to do their job.

3. The report points out that our billings under the contract (through August 31, 2007) are reported to be “over the budgeted amount” by \$88.2 million, or 26%. The auditors acknowledge that “comparisons between actual and budgeted amounts may be misleading.”

In response, *The Road Home* Program has gone through many changes at the direction of the State since the budget that the auditors are referring to was submitted in October 2006, about 15 months ago. In addition, there have been many more applicants to the Program than anyone had projected and on which the earlier budget had been based. The higher expenditures cited by the auditors are the result of our working hard with OCD both to make grant awards faster than planned and more awards than planned, all in the best interest of homeowners. Therefore, comparing expenditures to date to the original, outdated budget has no relevance. We would also like to state that the auditor’s statement that “Through August 31, 2007, ICF billed \$425,556,543, which includes \$50,000,000 in accruals...” is incorrect. ICF does not bill accruals under the contract.

4. The report states that of the subcontractor labor that was not invoiced in accordance with the Amendment 3 and 5 labor rates, there is \$219,465 in “unresolved” billings, \$44,565 in “unsupported” charges, and \$24,739 that “exceeds the agreed-upon markup.”

Given the large size of our weekly invoices and supporting documentation, as well as the large dollar amounts involved in this unprecedented program, it is expected that auditors reviewing our invoices will have questions on certain charges at any point in time. We are pleased with the excellent working relationship between ICF and the Louisiana Legislative Auditor (LLA) and appreciate the care, professionalism, and thoroughness with which the auditors review our invoices and identify such charges. Generally, we are able to resolve items that the auditors identify for further review and expect in a short amount of time that will be the case with the amounts currently classified as “unresolved” or “unsupported.” As a government contractor for nearly four decades, we are well accustomed to providing such additional information to auditors and working together to address any questioned amounts to their satisfaction.

The statement regarding some subcontractor labor amounts “exceeds the agreed-upon markup” is incorrect. We only invoice at the labor rates specified in our contract and those are the only rates that have standing under the contract.

5. The report indicates that ICF billed subcontractor labor totaling \$1,109,687 in accordance with contract Amendment 6 that “had not yet been approved” and \$57,566 that was not “in an approved task order.” The report adds that the amounts have not been paid nor has ICF rebilled.

So as not to risk delaying our providing of services to homeowners as quickly as possible in a disaster recovery operation, we naturally are flexible to allow the “paperwork” associated with approved contract amendments and task orders to “catch

up” in our files. In such cases, we endeavor to have prior discussions with OCD on the nature and level of our planned support that is the subject of pending amendments or task orders, so that our clients concur and together we can move the Program forward as quickly as possible, not letting bureaucracy cause us to delay services to homeowners.

In the case of Amendment 6, there was a longer delay receiving the approved amendment than either OCD or ICF expected, such that the changes in labor rates specified in the amendment were made retroactive. Because of this retroactivity and with the amendment working its way through proper channels, OCD agreed to our request to allow us to invoice the more than \$1 million in outstanding charges that we had accumulated and were holding. It was understood that OCD would pay those invoices only if and when Amendment 6 became effective. In effect, we acknowledge that it is better for our company to experience the \$1-million payment delay, than to push this onto our applicants by instead delaying our services until the “paperwork” catches up. The amounts cited by the auditors have been rebilled to the State.

6. The report points out that there was \$157,044 in “excess markup” that is stated to have “resulted from rounding” associated with billing for unit prices in accordance with Amendment 5, but differing from an apparent agreement reached between OCD and ICF “that unit rates would be marked up a specified percentage.”

As indicated in the response by OCD to the audit report, it is incorrect to find that there is an “excess markup” in our invoicing of the unit price items in our contract, such as home evaluations. Our invoices are at the unit prices specified the contract, no more and no less. Further, there is no agreement, and certainly no contract provision, to markup the unit price items at a “specified percentage.” In fact, such a cost-plus-percentage-of-cost markup contract is not allowed by Louisiana State law. Lastly, a number of our unit price items, such as the many appraisals that we have conducted, have no ICF markup at all.

7. The report indicates that Other Direct Costs (ODCs) were submitted with \$2,975,465 that “was not properly supported” and of that amount \$2,969,473 is “still under review.”

Again, *The Road Home* contract does not specify the type or amount of supporting documentation to accompany our invoices. We have and will continue to provide whatever supporting information is needed by OCD and the auditors to review our invoices. For the ODCs that are still under review, if the auditors inform us of the specific charges we would be happy to supply the documentation, if it has not already been provided. We anticipate in a contract of this size and complexity, that there always will be charges “under review” at any particular point in time. For example, at the time of the auditor’s next report on our invoicing, we would expect that this amount under review will have been completely resolved and there likely will be a different set of charges under review at that time and needing to be resolved.

8. The report notes that there are questioned ODCs for "travel, personnel recruitment, overhead expenses, amendment 6 items, and subcontractor overtime hours" where OCD has paid \$806,628 of the questioned ODCs, leaving an "unpaid" balance of \$3,896,667.

Similar to our response above, it is not surprising that certain ODC costs will be questioned and, in turn, may be "unpaid" at a particular point in time, given the scope of the contract and our having facilities, office infrastructure, and other such ODCs in many parts of the State. We are prepared to respond to any questions on our ODCs from the auditors and to provide supporting documentation to their satisfaction. It is our understanding that a large part of the unpaid balance cited includes items such as rent payments made for our Housing Assistance Centers, under leases executed in the summer of 2006 and which have been available and reviewed since then by many parties.

9. The auditors recommend an amendment be added to "clearly define ODCs and overhead" since the contract does not delineate what is an ODC versus costs already included in "ICF's indirect charges."

We concur with OCD in its response to the audit report that it is neither necessary nor appropriate to define costs under the contract as ODCs or overhead. ICF's Cost Accounting Standards (CAS) Disclosure Statement to the U.S. Government addresses our standard practice of charging costs as either direct to a contract or indirect, such as to overhead. We would be happy to make the Disclosure Statement available to the auditors for their review. In addition, OMB Circular A-87 for Federal awards of funds that are carried out through State government contracts provides ample guidance on what are considered to be direct and indirect charges under contracts such as *The Road Home*.